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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

**PCAOB Rulemaking Docket Matter No. 029**
***Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form***

Dear Ms. Secretary:

We appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2015-004, *Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB Form* (the Supplemental Request for Comment or the Proposal).

The Board has requested public comment on proposed rules that are intended to improve transparency of public company audits. The Proposal would require communication in a new PCAOB form of (1) the name of the engagement partner on the most recent period's audit and (2) the name, headquarters location, and extent of participation of other public accounting firms that took part in the audit.[1]

## Overview

We agree that the proposed approach described in the Supplemental Request for Comment, which would require the disclosure of the name of the engagement partner and certain information about other public accounting firms that participated in the audit in a new form to be introduced by the PCAOB (Form AP, *Auditor Reporting of Certain Audit Participants*), accomplishes the Board's goal to increase transparency to investors.[2] We also believe that such disclosure in Form AP would avoid the legal and logistical issues that we raised in our March 13, 2014 comment letter on PCAOB Release No. 2013-009, *Improving The Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Audit* (the Prior Release).

[1] Per the Proposal, the name and headquarters location of other public accounting firms that took part in the audit would not need to be communicated if their level of participation was below five percent of the total audit hours.

[2] We do not believe, however, that the proposed disclosure of the name of the engagement partner will increase the engagement partner's sense of accountability, improve audit quality, or result in independent public accounting firms enhancing their system of quality control (e.g., through changes to the assignment protocols for an engagement partner).

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**Calculating Participation Percentages**

Based on the current rules as proposed, we believe the process of calculating the level of participation will be subject to various estimates, which may lead to diversity in practice. We believe that more conformity in the reported level of participation can be achieved through additional guidance from the PCAOB as to how to determine the hours to be included in the numerator and denominator for a participating public accounting firm when such firm performs work both in connection with the consolidated audit as well as for statutory audit reporting purposes.

We also believe that additional guidance from the PCAOB regarding the calculation of the level of participation for those situations where a participating public accounting firm audits an equity method investee of the issuer (assuming that the independent public accounting firm that issued the auditors' report at the issuer level assumes responsibility for the work of the participating public accounting firm) will be helpful. As an example, should the hours for the participating public accounting firm that audits the equity method investee reflect the total hours incurred on that engagement, or should such hours be weighted by the ownership level held by the issuer in the equity method investee? Also, situations could arise where the independent public accounting firm that issues the auditors' report at the issuer level may not be able to obtain information about the hours attributable to the participating public accounting firm that audits the equity method investee, which would further complicate being able to perform the calculation that is required to determine the level of participation by such firm.

**Nonaccounting Firm Participants**

We support the Board's preliminary decision as set forth in the Proposal to not require disclosure of nonaccounting firm participants on Form AP. However, should the Board ultimately decide that disclosure of nonaccounting firm participants should be required, we generally agree with the more tailored approach as described in the Supplemental Request for Comment.[3]

**Scope**

Under the Proposal, Form AP would be required to be filed for non-issuer brokers and dealers, which are required to be audited in accordance with PCAOB standards. We continue to recommend that the Board exempt non-issuer brokers and dealers from the requirements of the Proposal. As noted in the Prior Release, the ownership of brokers and dealers is primarily closely held (per the PCAOB's Office of Research and Analysis, approximately 75% of the brokers and dealers have five or fewer direct owners), and the direct owners are generally part of the entity's management.[4] Therefore, the informational needs of these individuals would typically be different from those of an investor in a widely-held publicly traded company.

[3] See page 11 of the Supplemental Request for Comment.

[4] See page 27 of the Prior Release.

Similar to our views previously communicated in our March 13, 2014 comment letter on the Prior Release, we continue to believe that the Proposal should be applicable to emerging growth companies, and therefore recommend that no exemption from the proposed rules be provided for such companies, if the PCAOB decides to proceed with the Proposal.

**Other Matters**

*Deadline Timing*

Under the Proposal, Form AP would be required to be filed by the 30th day after the date the auditors' report is first included in a document filed with the Securities and Exchange Commission (SEC).[5] We request that the Board consider a deadline of 60 days from the date that the auditors' report is first included in a document filed with the SEC. This timing would give firms sufficient time to accumulate final hours from the other public accounting firms that participated in the audit, so that the firm could accurately report the level of participation by the other public accounting firms, with less estimation. A filing deadline of 60 days would also reduce the number of amended Form APs that would need to be filed to revise the level of participation of other public accounting firms (due to the original Form AP being completed using estimated hours versus actual hours), since it is possible that hours could be incurred by the firm or other public accounting firms that participated in the audit up to 45 days after the report release date, in connection with assembling the final audit documentation pursuant to Auditing Standard No. 3, *Audit Documentation*.

*Filing of the Form AP*

KPMG LLP audits approximately 1,500 issuers and approximately 200 broker dealers. As currently proposed in the rules, a separate Form AP would need to be filed for each issuer, broker dealer, investment company, and/or employee benefit plan. There is an administrative aspect on the larger firms of having to file a significant number of individual Form APs that we believe should be considered by the PCAOB, in finalizing the rules. Accordingly, we strongly encourage the PCAOB to allow firms to include information related to multiple audits on a single Form AP.

In addition, we believe more specific guidance about when Form AP will need to be refiled will be helpful. For example, it is unclear to us as to whether a new Form AP would need to be filed when the auditors' report for an issuer is reissued (e.g., if an issuer were to file a registration statement that incorporates by reference its financial statements included in a previously filed Form 10-K, including our auditors' report). In such situations, we believe that a Form AP should not be required to be refiled, assuming there were no changes to the information included in the Form AP when it was originally filed.

[5] See page A1-1 of Appendix 1 in the Supplemental Request for Comment.

*Effective Date*

The proposed effective date set forth in the Supplement Request for Comment would be for auditors' reports issued or reissued on or after June 30, 2016, or three months after approval of the requirement by the SEC, whichever occurs later. Firms, especially larger ones such as KPMG LLP, will need sufficient time to develop the appropriate policies and procedures to implement the proposed rules. We do not believe the proposed effective date of June 30, 2016 will allow us enough time to implement the necessary systems. Instead, we recommend that the effective date of the final rules should be for auditors' reports issued on or after June 30, 2017. The additional time will help to ensure full and accurate reporting, and a mid-year effective date of June 30, 2017, as opposed to an earlier effective date such as December 31, 2016, will provide firms the ability to adopt the proposed rules during a slower time in the year, since many firms have a client portfolio that is heavily weighted towards clients with a calendar year end.

Alternatively, in order to allow firms sufficient time to develop the appropriate policies and procedures to accurately capture the hours related to other public accounting firms that participated in the audit, we recommend that the Board consider implementing a phased approach, whereby disclosure of the information to be provided in Part IV of Form AP would not be required in the first year that the rules are effective.

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We appreciate the Board's careful consideration of our comments, and support the Board's efforts to improve the transparency of public company audits through the communication of certain information via Form AP about other public accounting firms that participated in the audit. In addition, if the PCAOB decides to move forward with a requirement to disclose the name of the engagement partner, we agree with the proposed approach described in the Supplemental Request for Comment, whereby such information would also be provided in Form AP. If you have any questions regarding our comments included in this letter, please do not hesitate to contact George Herrmann ((212) 909-5779 or gherrmann@kpmg.com) or Rob Chevalier ((212) 909-5067 or rchevalier@kpmg.com).

Very truly yours,

KPMG LLP

KPMG LLP

cc:

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